

**CITY OF DELAWARE CITY**  
**AGREED-UPON PROCEDURES ON MUNICIPAL GRANTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

**CITY OF DELAWARE CITY  
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FOR THE YEAR ENDED JUNE 30, 2006**

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## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

City of Delaware City  
407 Clinton Street  
Delaware City, Delaware

We have performed the procedures enumerated below, which were agreed to by City of Delaware City and the State of Delaware's Office of the Auditor of Accounts, Department of Homeland Security, and the Office of the State Treasurer, solely to assist you with respect to determining the City's compliance with Delaware's applicable laws, regulations, financial reporting and the effectiveness of the internal control structure related to the municipal grant funds received for the year ended June 30, 2006 on Page 4. The City of Delaware City's Management is responsible for compliance with those requirements. This agreed-upon procedures engagement was performed in accordance with *Government Auditing Standards* (2003) issued by the Comptroller General of the United States and the attestation standards established by the American Institute of Certified Public Accountants that have been incorporated by *Government Auditing Standards* (2003). The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. Document understanding of cash disbursement internal control structure over Municipal Street Aid grant funds from discussion with management and report internal control weaknesses.

**FINDING NO. 06-1** - During completion of the City of Delaware City's program checklist for the Municipal Street Aid grant, it was noted that their cash internal control structure over Municipal Street Aid grant funds has a weakness. There is no independent review of the Municipal Street Aid bank account reconciliation. An independent review of the bank statement and reconciliation will improve the City's cash internal control. Segregation of duties reduces the risk that one person could perpetrate and/or conceal errors in the normal course of his/her duties.

**RECOMMENDATION** - The Town should have an independent employee or Council member review the Municipal Street Aid bank reconciliations for accuracy and completeness on a monthly basis.

### **CITY'S PLAN FOR CORRECTIVE ACTION:**

*"The city maintains that based on the personnel pool there is proper segregation of duties and there is no material weakness in internal control. The employee responsible for bank account reconciliation does not receive, post, or approve invoices for payment. The employee responsible for bank account reconciliation does not collect receipts or make deposits. The Accounts Payable clerk, not the employee responsible for bank account reconciliation, submits the A/P trial balance for check selection directly to the City Manager. Dual signatures required on every check generated, and the inclusion of a list of checks written each month as part of the Treasurer's Report submitted to the City Manager and Mayor & Council, provide sufficient checks and balances to preclude the likelihood of a material misstatement."*

2. Complete the State of Delaware Auditor of Accounts municipal grants agreed-upon procedure program to determine the City's compliance with applicable laws, regulations and financial reports related to municipal grant funds received during the year ended June 30, 2006. Detail any instances of noncompliance.

FINDING NO. 06-2 - During completion of the City of Delaware City's program checklist for the Municipal Street Aid grant, it was noted that their financial documents and transactions were administered in accordance with the applicable laws and regulations, and that their financial report was submitted timely to the office of the State Treasurer, but the financial report was not accurately prepared or reviewed [30 Del. C. §5165(b)(2)]. The expenditures were understated by \$ 5,396.34 on the annual report. In addition, the beginning balance was understated \$ 6,481.56 and the ending balance was understated by \$ 1,085.22. Failure to prepare accurate financial reports could result in the loss of grant funding.

RECOMMENDATION - The City should more carefully prepare and review the amounts on the annual report to ensure an accurate presentation.

CITY'S PLAN FOR CORRECTIVE ACTION:

*"The city is extremely careful in preparing the annual report and believes the report submitted to be an accurate presentation. The General Ledger account 3000-03-000, "Fund Balance MAF Special Revenue", reflects the beginning and ending balances of MSA funds. Those figures were accurately submitted on the annual report. The city's General Ledger segregates and identifies all MSA funds available and all MSA funds expended. There was no understatement of expenditures. Any and all money in the physical bank as of July 1, 2005 and June 30, 2006 represent Delaware City General Fund monies. They consist of an amount needed to ensure the bank account remains open until the subsequent year funds are received and prevents the city from incurring bank fees. All MSA funds received in Fiscal Year ending June 2006 were disbursed by June 2006 and are reflected accurately on the annual report. Previous audits performed by the Office of Auditor of Accounts found no instances of noncompliance with the accounting procedures used by the city and stressed that City funds should never be included on the annual report as is the above recommendation. The city is substantially compliant as per the Delaware Code [30 Del. C. §5165(b)(2)]. If directed, the city will remove all City General Fund monies from the bank account and after that will decrease grant expenditures by the amount needed to keep the account open. Then unspent MSA funds only, as reflected in the General Ledger, will be reported on the annual report as a carry forward balance as is the actual requirement."*

FINDING NO. 06-3 - During completion of the City of Delaware City's program checklist for the State Aid to Local Law Enforcement (SALLE) and Emergency Illegal Drug Enforcement (EIDE), it was noted that the Statement of Sworn Officers did not have the signature of the City's Chief Executive as required by SALLE Manual, Chapter III, 2. Failure to comply with grant regulations could result in the loss of grant funding.

RECOMMENDATION - The City should implement controls to ensure the report is reviewed and that proper signatures are obtained.

CITY'S PLAN FOR CORRECTIVE ACTION:

*"The city ensures that the required signatures will be obtained on all reports."*

FINDING NO 06-4 - During completion of the City of Delaware City's program checklist for the State Aid to Local Law Enforcement (SALLE), it was noted that \$ 359.98 was expended on an ineligible item. Grant regulations require funds to be expended only for the purposes and activities outlined in the application (SALLE Manual, Chapter III, 6). The error occurred due to a revision in the original application by the SALLE Committee that was not reflected in the City's records.

RECOMMENDATION - The City should reimburse the SALLE account \$ 359.98 for the ineligible expenditure. Further, the City should ensure that grant records are updated for any changes authorized by the SALLE Committee.

CITY'S PLAN FOR CORRECTIVE ACTION:

*"The application by the city outlined the expenditure which was subsequently changed by the SALLE Committee. The city never received notification of the change made and therefore was unaware that the expense was disallowed. Since being informed, the records have been updated and the city has reimbursed the SALLE account for the expenditure."*

3. Note all situations or transactions that could be indicative of fraud, illegal acts, material errors, defalcations, irregularities or gross violations of the grant agreements and abuse or misuse of State funds.

During completion of the program checklist, no fraud, illegal acts and violations of provisions of contracts or grant agreements and abuse or misuse of state funds were noted.

4. Prepare the City's Schedule of Municipal Grants received during the year ended June 30, 2006.

See Page 4.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the City's compliance with Delaware's laws and regulations, financial reporting and the effectiveness of the internal control structure related to municipal grant funds. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information of the City of Delaware City's Management and Council Members, Department of Homeland Security, Office of the State Treasurer and Office of Auditor of Accounts, and is not intended to be and should not be used by anyone other than those specified parties. However, under 29 Del. C. §10002(d), this report is a public record and its distribution is not limited.

*Jefferson, Ulan, Doane & Starnes, P.A.*

Georgetown, Delaware  
November 29, 2006

**CITY OF DELAWARE CITY  
SCHEDULE OF MUNICIPAL GRANTS  
FOR THE YEAR ENDED JUNE 30, 2006**

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<u>Grants</u>	<u>Amounts Received</u>
Municipal Street Aid	\$ 47,833.79
Police Pension	-
State Aid to Local Law Enforcement	3,980.13
Emergency Illegal Drug Enforcement	3,508.99

See independent accountant's report on applying agreed-upon procedures.